CRUDE OIL

Reserves and Production

In 2005 Indonesia ranked twentieth among world oil producers, with approximately 1.4 percent of the world's daily production. The GOI places Indonesia's crude oil reserves at 8.6 billion barrels, with proven reserves of 4.3 billion barrels and potential reserves of 4.3 billion barrels. These figures are 5 percent lower than in 2003. Oil exports were an unofficial $8.2 billion in 2005. Preliminary total oil and gas exports (including LNG) were $19.2 billion in 2005, compared with $16.3 billion in 2004—24.5 percent of Indonesia's export earnings, up from 23.8 percent in 2003.

In 2005, Indonesia's overall crude oil production continued to decline to an unofficial 1.06 million b/d, falling short of its 1.08 million b/d target. Indonesia produced well below its OPEC crude production quota of 1.451 million b/d (without condensate), as a result of declining investment and maturing oil fields.

In 2004 Indonesia produced 1.094 million b/d, consisting 0.966 million b/d of crude and 128,600 b/d of condensate. This was a 4.6 percent drop from the 2001 level of 1.147 million b/d (1.013 million b/d for crude and 133,800 b/d for condensate). Almost all oil producers (Chevron, CNOOC, BP, Petrochina, Pertamina, Vico, and ConocoPhillips) reported declines. Continued sluggish investment and a decrease in new exploration were key factors behind the decline. PT Chevron Pacific Indonesia's production, which accounted for 46.3 percent of the country's crude oil production in 2004, remained stable during 2003 and 2004 at almost 506,900 b/d. Total Indonesia took over from Chinese National Offshore Oil Corporation (CNOOC) as second largest oil producer in 2004 with 7.5 percent of production.

The GOI is renewing its commitment to increase output in its energy blueprint. It has set a target of 1.3 million b/d production target by 2009. BPMIGAS believes new production from several existing PSCs will reverse the decline, citing amongst others, Pertamina (Salawati), Petrochina (Jabung and Sukowati), Total Indonesie (Peciko) in the short term and ExxonMobil (Cepu) and Santos (Jeruk) in the medium term.

Table: Crude and Condensate Production by major producers (1,000 Barrels/Day)

Company	2003	2004	Change (%)
Caltex*	506.9	507.0	0.0
Total	81.1	81.8	0.8
CNOOC	94.9	81.5	-14.2
Unocal*	53.9	55.7	3.3
Exspan	66.4	54.0	-18.6
Pertamina	43.6	48.4	10.9
ConocoPhilips	51.4	44.1	-14.2
Petrochina	40.5	36.6	-9.7
BP	38.8	31.3	-19.4
Bumi Siak Pusako	32	30.0	-6.2
Vico	32.3	28.8	-10.8
ExxonMobil	25.4	21.2	-16.5
Others	79.6	74.1	-6.9
Total Indonesia	**1146.8**	**1,094.4**	**-4.6**

Note: *Changed to Chevron after merger.

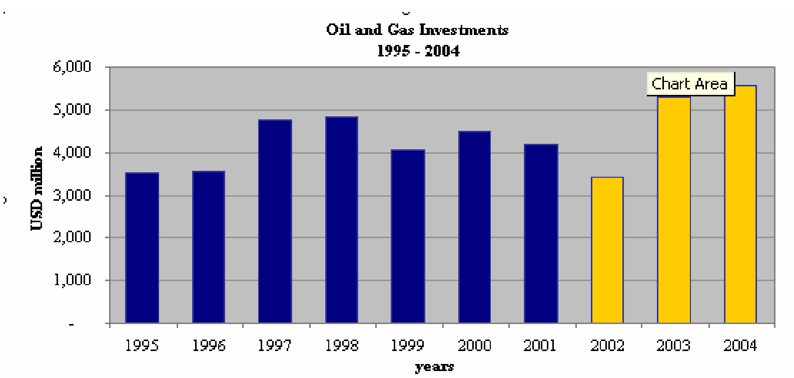
Exploration and Investment

Of an estimated 60 oil basins, approximately 22 have been extensively explored. Most oil exploration is currently being carried out in the basins of Western Indonesia under PSCs. The bulk of Indonesia's oil reserves are located onshore and offshore in Central Sumatra and Kalimantan. The GOI has placed increased emphasis on developing oil reserves in remote locations, such as

Papua, where proven and potential reserves are estimated at 109.1 million barrels.

The oil and gas industry today faces several crucial problems, particularly in the upstream sector, due to aging oil and gas assets and investment climate uncertainties. Officials hope oil contractors will aggressively increase exploration activities to look for new reserves. With no significant oil discoveries in western Indonesia in the last 10 years, the government hopes eastern Indonesia's frontier and deep-sea areas may contain sizable oil reserves.

The number of exploration drilling wells completed in 2004 dropped sharply to 36, consisting of 12 wildcat wells and 22 appraisal wells. The associated success ratio (successful wells versus wells drilled) reached 61.1 percent, up from 42.4 percent in 2003 and 33 percent in 2002.



Pertamina and BP Migas reported that several oil companies shelved a number of investment plans in 2004 due to issues including contract sanctity, regional autonomy, security, manpower, taxes, and uncertainty surrounding the implementing regulations for the Oil and Gas Law. Oil companies' expenditures have slowly moved up again since 2002 owing mainly to increases in production expenditures. According to the Energy Ministry's Oil and Gas Directorate (MIGAS), oil companies spent a total of $5.6 billion in 2004, a 4.8 percent increase from the 2003 total of $5.3 billion.

Seismic Activities

According to MIGAS, a total of 15,041 kilometers of combined 2-D and 3-D seismic activities were carried out in 2004, continuing the steady downward trend since the 1997 peak.

Exploration Blocks Awarded

The government awarded 9 oil and gas exploration blocks in 2005, compared with sixteen in 2004 and fifteen in 2003. All of the blocks awarded in August 2005 were through a direct bidding process. Four of the 13 direct offer blocks remain unsold: North East Madura V, North Bali II, Taritip and Amborip V. Winners in the direct bidding round were predominantly local oil companies, some with little previous experience.

The nine contracts in 2005 went to Lhokseumawe (Zaratex NV), West Kampar (Sumatra Persada Energi), Bungamas (Erry Guna), Bengkulu (Commissioning Services Indonesia), Citarum (Bunga Parahyangan Ranhill Energia), NE Madura IV (Energi Timur Jauh), Sebatik (Star Energy), Amborip VI (ConocoPhillips), and Wailawi (BUMD Benuo Taka). Exploration commitments by the winners totaled $102.5 million with signing bonuses to the government totaling $7.9 million.

In June 2005, the government offered 14 oil and gas blocks through regular tender and 13 through direct tender. On June 2, 2006 the GOI announced winners for seven of the 14 regular tender. The GOI said it received 15 bids for the 7 blocks, as well as three non-conforming bids on the Cakalang, Buton I and Buton II blocks. There were no bidders on the other seven blocks.

The direct bidding round is one of the Government's revamped procedures for exploration and production contracts in a bid to increase their attractiveness. Previously, oil and gas companies could only receive a concession through an official tender. Now, the government accepts proposals for blocks without waiting for a formal bidding session. Under this special bidding process, after a company applies to acquire a new exploration block, the government invites other bidders to participate. If no other bidder emerges within a set timeframe, the government grants the block to the sole bidder. The government also offered new, more attractive terms and conditions for new exploration blocks in 2005. Winning PSCs would get between 20 and 35 percent splits for oil and between 30 and 40 percent for gas. Under previous PSC terms, companies generally receive a 15 percent split for oil and 30 percent split for gas. The government also set first tranche petroleum (FTP) obligations at 10 percent.

Mergers and Acquisitions

US based Chevron acquired Unocal in August 2005, strengthening its position as Indonesia's largest oil producer. Caltex and Unocal both assumed the Chevron name but continue to conduct operational activities under separate subsidiaries.

In August 2004, Indonesia's largest oil and gas company, Medco Energi International completed acquisition of Novus Petroleum Limited, a company listed in the Australian Stock Exchange with assets in the Middle East, United States, Australia and Indonesia. The acquisition led to the change of Novus' directors as it cut its global assets.

Mergers:

- Chevron and Unocal, Aug 2005.
- Conoco & Phillips - ConocoPhillips, Sept 2002.
- Chevron & Texaco – ChevronTexaco, Sept 2001
- Santa Fe Snyder & Devon – Devon Energy Corp, Aug 2000.
- BP Amoco & Arco – BP, Apr 2000.
- TotalFina & Elf – TotalFinaElf Sam, Feb 2000.
- Exxon & Mobil – ExxonMobil Corp, Nov 1999.
- El Paso & Sonat – El Paso Energy Corp, Oct 1999.
- Total & Fina – TotalFina, Jun 1999.
- Lasmo & Monument – Lasmo Plc, Jun 1999.
- Santa Fe & Snyder – Santa Fe Snyder Corp, May 1999.
- Nisseki & Mitsubishi Oil Co. – Nisseki Mitsubishi Abushild, Apr 1999.
- Kerr McGee & Oryx – Kerr McGee Corp, Feb 1999.
- BP & Amoco – BP Amoco Plc, Jan 1999.
- British Borneo & Hardy – British Borneo Oil & Gas Plc, Oct 1998.
- Ocean Energy & Seagull – Ocean Energy Inc, Jun 1997.

Takeovers:

- Medco Energi – Novus Petroleum, August 2004
- Conoco - Gulf Indonesia Resources, July 2002
- CNOOC - YPFMaxus, Jan 2002.
- PetroChina - Devon Energy, April 2002
- Husky Oil Ltd. – Renaissance energy, Aug 2000.
- Canadian Natural Resources – Ranger Oil, July 2000.
- Fortune (Indo Pacific) – GFB Resources (Java) Ltd, Jul 2000.
- Agip – British Borneo, May 2000.
- Singapore Petroleum Company Ltd – LL&E Indonesia, Jan 2000.
- Maple/Matrix – GFB Resources (Langsa) Ltd, Jan 2000.

The Future

Pundits had forecast Indonesia's imminent shift from net oil exporter to net importer for several years. Those predictions were finally realized on a monthly basis in 2004. A steady decline in production, coupled with lower exploration investment levels, accelerated the transition ahead of consensus forecasts. However, with substantial reserves of natural gas and coal, Indonesia remains a net energy exporter. The March 2006 agreement between ExxonMobil and Pertamina to begin development of the Cepu bloc and the nine percent drop in domestic petroleum consumption following the October 2005 price hikes may bring Indonesia back into the net exporter camp when official figures for 2005-2006 are released. To maintain momentum, however, industry observers encouraged the GOI to implement legislation and policies that will rationalize use of Indonesia's energy resources.

A 2005 industry survey conducted by the IPA and PricewaterhouseCoopers concluded that Indonesia's oil and gas industry is at a critical juncture. Survey participants lauded positive government efforts toward improving the investment climate in the upstream industry, such as improved fiscal incentives, the development of an overall energy blueprint, and an improving gas pipeline infrastructure.

Industry representatives said, however, that Indonesia should improve its fiscal terms for oil and gas production for both mature and frontier areas. Often the balance between risk and reward is generally viewed as insufficient to attract major exploration funds. These problems are exacerbated by small reserve accumulations and high infrastructure costs. To address these concerns, the Minister of Energy and Mineral Resources issued Regulation 8/2005 in April 2005, which gave contractors developing marginal oil field an additional 20% reimbursement in cost recovery. In its 2005 bidding round the government offered also a more favorable contractor production split of 70/30 (government/contractor) and 60/40 for oil and gas respectively.

As part of its Energy Blueprint, Indonesia renewed its intention to achieve a production target of 1.3 million b/d by 2009. Industry leaders say that five actions by the GOI are crucial to reach this production target:

- Harmonizing conflicting laws and regulations, including the timely implementation of regulations;
- Improved teamwork, coordination and cooperation amongst GOI entities;
- Implementing judicial reform;
- Changing the regulatory paradigm to a "shared economic interest" model;

- Completely eliminating fuel subsidies and implementing an effective gas regulatory environment.

PSC Update

CHEVRON consolidated and renamed its Indonesian business unit to Chevron IndoAsia in 2005, which includes former Caltex and Unocal operations. Both Caltex and Unocal now operate under the Chevron brand names, Chevron Pacific Indonesia (CPI) and Chevron East Kalimantan (CEK), respectively.

CPI is the single largest crude oil producer in Indonesia, accounting for almost 50 percent of the country's total production. CPI averaged 507,900 b/d and produced 34.8 BCF of gas in 2004. Most of CPI's production and operations are located in Riau province, Central Sumatra. The majority of the firm's production came from the Rokan PSC in the Duri and Minas fields. CPI also holds a 100% interest in the Kisaran block, which it acquired from the government in 2001. Outside Central Sumatra, Chevron has a 25% non-operating interest in the South Natuna Sea Block B, operated by ConocoPhillips.

In contrast with CPI, Chevron East Kalimantan (previously Unocal) leads in the exploration of Indonesia's deepwater resources with the majority of its operations located offshore. Following the merger, Chevron strengthened its position as the country's leading producer for both onshore and offshore exploration. During 2004, CEK produced 55,700 b/d of oil and condensate and a total of 124.2 BCF of gas. The acquisition added interests in 12 offshore PSCs in areas covering approximately 7 million acres and a supply contract with Bontang LNG plant.

CEK continues exploration and appraisal drillings to add to its oil and gas reserves. CEK operated Indonesia's first deep water project, the West Seno field, in the Makassar Strait PSC, offshore East Kalimantan. The field began production in 2003 and is expected to peak at 60,000 bpd and 150 mmcfd of gas when the second phase of the project is completed. The field produced 16,700 b/d of oil and 3.3 BCF of natural gas in 2004. Chevron also plans to develop the Sadewa gas field (150-600 BCF reserves), which is expected to come online in 2007 – 2008. In the mid-term, CEK hopes to begin production at Gendalo in 2007 and Gehem in 2008.

CEK currently pipes about 150 mmcfd to the Bontang LNG plant, but, the company predicts gas production could reach 800 mmcfd or greater by 2011. A variety of sources could absorb future gas production: Bontang's planned ninth LNG production train, a proposed LNG regasification facility in Java, or a proposed East Kalimantan-Java gas pipeline (2010).

Chevron's downstream activities include sales of paraxylene, benzene and fuel catalysts to refineries in Java, and the company enjoys a sizable domestic market share of lubricants and fuel additives. Chevron is currently assessing the impact of recent deregulation for possible new opportunities in refining, distributing, and marketing its downstream products.

In the electric power business, Chevron Geothermal and Power replaced Amoseas Indonesia in 2004 as operator of the Darajat geothermal plant in West Java. In 2005 Chevron inaugurated the construction of its Darajat complex expansion, the 110 megawatt Darajat III. Darajat III is expected to start operation in the third quarter of 2006 and sell power to PLN. From the Unocal merger, Chevron acquired another geothermal facility in Gunung Salak, Central Java. In addition, the company also operates a 270 MW co-generation facility in North Duri to support its Central Sumatra activities.

EXXONMOBIL was created from the merger of Exxon and Mobil in November 1999, leading to the consolidation of Exxon, Esso, and Mobil operations in Indonesia. ExxonMobil (EM) celebrated 100 years of doing business in Indonesia in 1998, including 30 years as a production-sharing contractor, 20 years as a producer of liquefied natural gas and 10 years as a producer of liquefied petroleum gas.

One of ExxonMobil's largest endeavors during 2004 - 2006 was its effort to extend its TAC for the Cepu block in East Java. In March 2006, ExxonMobil and Pertamina signed a joint operating agreement which will pave the way to begin production in the block, possibly as early as 2008. Through purchases and acquisitions, ExxonMobil holds and operates a 100% participating interest under a production sharing arrangement awarded by Pertamina in 1990. ExxonMobil has invested over $400 million in Cepu. EM has made a significant discovery at Banyu-Urip, with estimated resources in excess of 300 million barrels of oil and significant volumes of gas. ExxonMobil proposes a $2.6 billion capital investment to fully develop the block. The company estimates peak crude oil production will be 171,000 b/d. Major gas supplies could be available for sale to meet existing shortfalls in East and Central Java. The company estimates the project would generate annual gross revenues between $700 million and $1.2 billion at peak production.

Cepu extension talks between ExxonMobil, Pertamina and the GOI lagged for the past five years. In 2005, Pertamina and ExxonMobil made progress, signing a new cooperation contract for the Cepu block, where each holds 45 percent interest in the block. In March 2006, ExxonMobil and Pertamina resolved a disagreement with EM securing the lead to develop the project and Pertamina executives playing key roles. The successful conclusion of the Cepu deal will provide substantial economic benefits to Indonesia and East and Central Java and will send a positive signal to foreign investors.

In North Sumatra, ExxonMobil's natural gas operations include the Arun, Pase, South Lhoksukon, and North Sumatra Offshore fields, which supply gas to the Arun LNG plant. Gas supply from the field is declining and not sufficient to meet export commitments and supply the local fertilizer industry in Sumatra. The government has requested that ExxonMobil divert some of its production to supply the fertilizer plants even at the cost of the GOI having to purchase LNG cargoes from the world spot market to meet its contractual export commitments.

ExxonMobil has a 50 percent participating interest in A-Block (ConocoPhillips is operator). In 2005, ExxonMobil announced plan to divest its interest in A-Block. The company also sold its 68 percent interest in the Madura Strait PSC to Husky Energy in 2004.

BP is one of the largest foreign investors in Indonesia. Through partnerships with upstream authority BP Migas, BP has invested over $5 billion in its Indonesian operations over the last 34 years. After acquiring Arco's assets in 2000, every BP business stream—exploration and production, chemicals, downstream and solar—is represented in the company's Indonesia operations.

In Java, BP realigned its strategy to concentrate on its West Java assets. BP operates the Offshore North West Java PSC (with a 46% interest), which averaged 30,000 b/d of crude oil and 225 mmbtu/d of gas during 2004. BP currently supplies 65% of the West Java gas market. In 2004 BP shed almost all of its East Java assets, including its 100 percent interests in Kangean and Muriah PSC.

BP is the major shareholder and operator of the Tangguh LNG project, which encompasses three PSCs in the Berau-Bintuni Bay region of western Papua. The Tangguh gas fields contain 14.4 trillion cubic feet (TCF) of proven and certified natural gas reserves. The planned LNG processing plant will produce 7.6 million metric tons of LNG per year from two initial processing trains starting in 2008 - 2009.

Following final Indonesian government approval in March 2005, BP appointed a consortium of Kellogg Brown Root (KBR), JGC Corporation, and PT Pertafenikki, as contractors to build the Tangguh project. The project has already obtained four market commitments for 7.65 million tons (MT) of Tangguh LNG per annum -- 2.6 MT of LNG per year to China's Fujian province for a 25 year term beginning 2007, 1.35 MT of LNG per year to South Korea's K Power and POSCO for a 20-year term beginning 2006, and 3.7 MT of LNG per year to Sempra Energy's proposed LNG receiving terminal in the West Coast for a 20-year term beginning in 2008. (Until Tangguh becomes operational LNG will likely come from the Bontang LNG facility in East Kalimantan). The GOI and BP also hope to ink new LNG supply contracts with Japan.

Through a joint venture with ENI, BP also has a 50 percent interest in VICO, Indonesia's fourth largest gas producers with gross production of 330 BCF and 28 mmbd. VICO operates the Sanga Sanga PSC in East Kalimantan, which supplies 20 percent of the gas for the Bontang LNG facility. In the downstream sector, BP distributes lubricants under the Castrol brand and produces purified terephthalic acid (PTA) in cooperation with Mitsui Chemicals and Mitsui & Co.

CONOCOPHILLIPS continues to streamline and refocus its Indonesian operations following the August 2002 merger of Conoco Inc. and Phillips Petroleum. The merger followed then-Conoco Inc.'s acquisition of Gulf Canada Resources in 2001. The company since changed its investment criteria to focus on three core areas in Indonesia: South Sumatra, South Natuna Sea and East Java. In 2003, Conoco Phillips Indonesia sold its share of the Kakap PSC (31.25 percent interest), Sebuku PSC, Makassar Strait (100 percent) and Tungkal PSC, South Sumatra (100 percent). Currently

ConocoPhillips owns 13 production sharing contracts (PSCs), eight of which are operated by the company, and a 14 percent participating interest in the Transgasindo pipeline in South Sumatra.

ConocoPhillips is the largest supplier of pipeline gas in Indonesia through the South Sumatra pipeline and West Natuna pipeline. In August 2003, ConocoPhillips began supplying natural gas from its south Sumatra Corridor PSC to Singapore's PowerGas, via the Grissik-Batam-Singapore gas pipeline. The company has also supplied natural gas to Singapore's Sembawang Gas from its West Natuna gas fields since 2001 and to Petronas' Duyong Complex offshore Malaysia from South Natuna Sea Block B since August 2002. ConocoPhillips has been a major player in the pipeline gas business since 1998, when it began supplying gas from the South Sumatra Corridor Block PSC to the Chevron-operated Duri steamflood in Central Sumatra.

ConocoPhillips holds a 40 percent operating interest in the offshore Block B PSC, South Natuna Sea. The Belanak floating production, storage and offloading (FPSO) project at the Block B PSC, started oil production in December 2004. The FPSO has a capacity to process 100,000 b/d of oil and 430 million cubic feet of gas per day. Natural gas production from the field is exported via pipeline to Singapore and Malaysia.

In offshore East Java, ConocoPhillips has an operating interest in the Ketapang block. The company believes the block has significant oil potential and plans an additional 5 wells in 2006. Malaysia's Petronas has an equal, non-operating interest in the block. ConocoPhillips plans to drill to invest over $3 billion in projects in the Natuna Sea and Ketapang over the next 4 years.

ConocoPhillips is also a major player in the $900 million South Sumatra to West Java gas development project. The project includes a 660-kilometer pipeline from ConocoPhillips Suban gas field in the Corridor Block to the state-owned electricity utility PLN gas-fired power plants in West Java. The company signed a gas sales agreement in August 2004 with state gas company PGN for 2.3 TCF of gas to supply industrial customers in West Java and Jakarta over a 17 year period commencing 2007. Gas supply will come from the Suban gas field on Corridor Block PSC, South Sumatra and will be transported via the South Sumatra-West Java pipeline.

AMERADA HESS consolidated its holdings in Indonesia and sold most of its Indonesian assets during 2002 – 2003. Amerada Hess' present assets in Indonesia are a 78 percent operating interest in Pangkah PSC and a 25 percent working interest in the Jambi Merang JOB.

Amerada Hess has focused its operations in Indonesia on the development of the Ujung Pangkah gas field located in the Madura Strait, offshore East Java. The company is also constructing an offshore well head platform and an onshore gas processing facility in Gresik. Amerada Hess plans to pipe gas from the Ujung Pangkah gas field to PLN's Gresik power plant. In December 2004, the company signed a 400 BCF gas supply contract with PLN for 20 years starting at the end of 2006.

MEDCO, Indonesia's largest private oil company, began exporting crude oil in 2000. It also formally changed its name to "PT Medco Energi Internasional Tbk." at that time. Medco is 50.7 percent owned by Encore International Ltd, which is affiliated with the Panigoro family. On January 2005, Encore signed conditional sales purchase agreements to buy out 40 percent and 19.9 percent share ownerships in New Links Energy Resources from Thailand's PTTEP and Cumin Limited respectively. Encore is now the sole shareholder of New Links. In 2005, Medco launched a secondary public offering, which increased public investors' shareholding in Medco up to 42.6 percent. Medco, through its subsidiaries, owns 14 oil and gas blocks throughout Indonesia, seven of which are in production, while the rest are in the exploration phase.

Medco is the third largest crude oil producer in Indonesia. However, its crude production dropped almost 14 percent to 57,500 b/d in 2004 despite additional production from Kakap block and overseas assets. An ongoing production decline in Medco's largest fields, Kaji Semoga in Rimau PSC, South Sumatra, is the primary reason for drop off. Medco plans to utilize waterflood optimization and enhanced oil recovery (EOR) to slow down the decline rate in its Sumatra fields. Medco's proven oil reserves now stand at 99 million barrels, while proven and probable reserves stand at 176 million barrels.

In late 2003, Medco assumed the sole risk in exploration drilling in Jeruk in the Sampang PSC. They struck oil in 2004. Other interest holders in the PSC, Singapore Petroleum Company and Cue Energy, decided to reinstate their rights to the Jeruk field at that time. Consequently, Medco will receive full reimbursement of its expenses in developing the field and additional compensation when the field comes online in 2007.

In August 2004 Medco completed its takeover of Novus Petroleum Limited, a listed Australian oil and gas company with assets in the Middle East, Australia, US and Indonesia. Through the acquisition, Medco gained interests in two Indonesian producing fields, Brantas and Kakap. Shortly there after, Medco began consolidation and shed some of Novus' assets. The company sold Novus' Pakistani, US, and Australian assets, as well as 18 percent and 6.25 percent of Brantas and Kakap PSCs in Indonesia.

The company believes its future lies in natural gas development. Medco's gas reserves stand at 221 BCF proven and 629 BCF proven and probable. Medco's gas production, more than doubled to 192 mmcfd during 2004, owing to additional production from Novus' assets.

In addition to gas blocks in south Sumatra, Medco's Exspan Tomori Sulawesi holds a 50 percent operating stake in the Senoro-Toili JOB with PT Pertamina. The block has estimated natural gas reserves of 2.5 TCF. In January 2006, Medco shipped its first oil from the Senoro's Tiaka field to Pertamina's Plaju refinery.

In July 2005 Medco entered into an Exploration Joint Venture Agreement with the US-based Anadarko Petroleum's Indonesian subsidiary. Under the agreement Anadarko will provide $80 million over three years in exchange for up to 40 percent interest in Medco's exploration assets. Medco also acquired 100 percent of the Sembakung Technical Assistance Contract (TAC), a mature producing field in Perkasa Equatorial Sembakung and signed a PSC agreement with Libya's National Oil Company for the Area 47 concession, Northwest Libya. In 2006, Medco plans $300 million in capital expenditures to continue with its acquisition strategy, of both domestic and international assets.

EMP, Energi Mega Persada, Indonesia's second largest oil and gas company, was incorporated in October 2001 and has been listed on the Jakarta Stock Exchange since June 2004. EMP is controlled by PT Kondur Indonesia and PT Brantas Indonesia, with each holding 30.1 percent shares and is affiliated with the Bakrie Group. EMP operates three exploration blocks and has proven and probable reserves of 91 million barrels of oil and 3.3 trillion cubic feet (TCF) of gas as of 2005.

One of EMP's strategies is to strengthen its position in East Java market, mainly capitalizing on lack of gas supply in the region. EMP is a leading player in the East Java gas market after purchasing BP's 100 percent interest in the offshore Kangean PSC and Pan Asia Enterprise's 50 percent interest in the Brantas PSC, both in 2004. EMP inked gas sales agreements totaling over 970 trillion cubic feet from its Kangean block to supply PLN, PGN, petrochemicals firm Petrokimia Gresik, Pertamina, and local gas distributor Indogas. EMP is continuously seeking expansion of its portfolio via asset acquisitions. In December 2005, EMP obtained shareholder approval to acquire PT Tunas Harapan Perkasa (THP), a local oil and gas company with interests in five exploration assets mainly in located in Sumatra.

CNOOC, the China National Offshore Oil Company, is currently Indonesia's largest offshore oil producer (over 81,500 b/d) following its acquisition of RepsolYPF Indonesia in January 2002. CNOOC's holdings now include an operating 65.34% interest in the Offshore South East Sumatra PSC, a 36.72 percent interest in the Offshore Northwest Java PSC, a 25 percent interest in the West Madura PSC offshore East Java, a 50 percent interest in the Poleng TAC in East Java, and a 39.51 percent interest in the Malacca Strait PSC. CNOOC's Indonesian operation had net proved reserves of 155 million boe, accounting for approximately 7 percent of total company reserves. In 2004, the company produced and 81.5 thousand b/d of oil and 18.8 BCF of gas.

CNOOC's Indonesia strategy is to tap into the export market as well as get more involved in the domestic natural gas industry. CNOOC entered the LNG export business when it bought a 12.5 percent stake in the $3 billion Tangguh LNG project in late 2002.

Production in CNOOC's South East Sumatra PSC continued to decline over the past 2 years by almost 30 percent compared to 2002. Main oilfields Cinta and Widuri are already 30 years old and are steadily declining. However, the company is optimistic that it will be able to maintain production level through the development of marginal fields and new gas fields in the area. In April 2005, CNOOC received increased financial incentives from the government for its 6 marginal fields. CNOOC secured a gas sales agreement with PLN in 2004 to supply 80 billion BTU to PLN's proposed Cilegon Power plant in West Java starting in 2006 and lasting 12 years. They will supply the gas mainly from the newly developed Zelda and Banuwati fields in the Southeast Sumatra PSC.

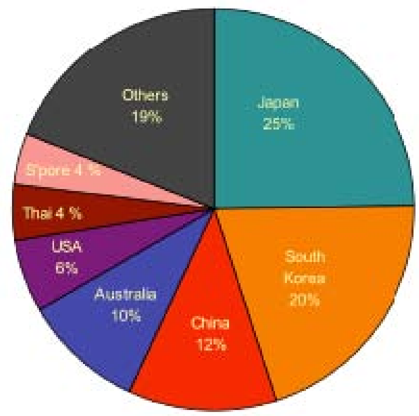
Crude Oil Marketing

Indonesia, through Pertamina, BP Migas and its foreign partners, sells crude oil using the Indonesia Crude Price (ICP) formula. Indonesian crude is generally low sulfur and waxy. Indonesia's representative Minas crude (often referred to in marketing terms as Sumatra Light Crude or SLC) produced in Central Sumatra has an American Petroleum Institute (API) gravity of 34.5 degrees at 60 degrees F and a sulfur content of between 0.06 percent and 0.10 percent by weight.

Effective October 1, 1999, Pertamina changed the ICP pricing formula for official export prices of Indonesian crude. The ICP formula has three components: the Asian Petroleum Price Index (APPI), the Rim Intelligence Company price, and the Platts price. The APPI component is derived from twice weekly APPI price assessments adjusted by a basket of regionally traded crude oils (including Indonesian Sumatra Light Crude and Malaysian Tapis) using a 52-week moving average. Pertamina lowered the portion of the APPI panel quota from 33.3 percent to 20.0 percent and increased the portion of the spot assessments of Platt and RIM to 40.0 percent each. The purpose of the adjustment was to better reflect world prices through more emphasis on the spot market. The Ministry of Energy and Mineral Resources reviews the oil pricing formula semi-annually.

Asian countries are the largest markets for Indonesian crude. Japan accounted for 25 percent of Indonesian crude oil exports in 2004, followed by South Korea (20 percent), China (12 percent), Australia (9.7 percent) and the United States (5.7 percent).

Indonesia 2004 Crude Export Destinations



Pertamina has an office in Singapore through its wholly owned Hong Kong-basedsubsidiary Pertamina Energy Trading (ex-Perta Oil). The company promotes and facilitates trade in crude oil and fuel between Singapore and Indonesia, offers logistical services to Pertamina, and represents Pertamina's interests.

Imports

Indonesia remains a significant importer of crude oil. In 2005, Indonesia imported an unofficial 118 million barrels. In 2004, Indonesia imported 148.5 million barrels (an average of 406.9 thousand b/d), mainly from Saudi Arabia (25.5 %), Nigeria (18 %), Malaysia (7 percent), Vietnam (6.4 percent) and Angola (6 %). Oil product imports rose to an unofficial 160 million barrels in 2005, up from 154 million in 2004 and 106 million barrels in 2003.